

# #AUDITTALKS over coffee

**ESG - call to action, new regulation, old responsibilities, 2 CPE**

**29.03.2023 from 10.00 am to 11.40 am**



**Partners:**



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## ESG - call to action, new regulations, old responsibilities

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**ESG - call to action, new regulations, old responsibilities**



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## **CSRD, ESRS - general overview**

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## NFRD

Non-financial Reporting Directive // 2014/95/EU

### Background

- Adopted in 2014 applies as of FY 2017 with first reports published in 2018

### Main requirements

- Requires companies to publish non-financial information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
- The report must be published in the management report or in a separate report (MS option)
- Auditors check that non-financial statement is provided but **no assurance on content required**, unless required by MS

### Scope

- Public-interest entities with + 500 employees
- Public interest entities:
  - Listed undertakings
  - Banks
  - Insurance companies
  - Undertakings designated by Member States as public-interest entities



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## CSRD

Corporate Sustainability Reporting Directive //EU 2022/2464

### Key take-aways

- CSRD, adopted in 2022, requires companies to disclose information on their risks and opportunities arising from social and environmental issues, and on the impacts of their activities on people and the environment.
- CSRD revised and replaces NFRD.
- Applies as of financial year 2024, for reports published in 2025.

### Aim

- To help investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies.
- To reduce reporting costs for companies over the medium to long term by harmonising the information to be provided.

### Scope

- Applies to all large public companies meeting 2 of the following criteria (> 250 employees; balance sheet total > €20 million; net turnover > €40 million);
- All listed companies (except listed micro-enterprises).

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## CSRD

Corporate Sustainability Reporting Directive //EU 2022/2464

### CSRD introduces

- More precision on the reporting structure: strategy, implementation and performance for E, S, G matters;
- An obligation to report against a unified **European Sustainability Reporting Standard (ESRS)** developed by EFRAG;
- Clearly embeds a **double materiality** approach;
- An obligation for the **external assurance**;
- Special regime for listed SMEs: possibility to disclose against a bespoke SME standard
- Alignment with SFDR and EU Taxonomy.
- CSRD provides digitalization of sustainability information.

### Application dates (phase in):

- 2025 (for financial year 2024) for companies already subject to the NFRD
- 2026 (for financial year 2025) for other large listed and non-listed companies
- 2027 (for financial year 2026) for listed SMEs with 'opt-out' for 2 years
- 2029 (for financial year 2028) for non-EU companies



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## CSRD - CORPORATE SUSTAINABILITY REPORTING DIRECTIVE



On 5 January 2023 the Corporate Sustainability Reporting Directive (CSRD) entered into force replacing the current Non-Financial Reporting Directive (NFRD)



Companies subject to the CSRD will have to report according to **European Sustainability Reporting Standards (ESRS)**. The draft standards are developed by the EFRAG.



A broader set of large companies, as well as listed SMEs, will be required to report on sustainability – approx. 50 000 companies in total. In Poland NFRD covers around 300 entities, CSRD will cover around 3500 entities (estimation).



The CSRD also makes it mandatory for companies to have an audit of the sustainability information that they report.



CSRD provides digitalization of sustainability information.

	2025 On FY 2024	2026 On FY 2025	2027 On FY 2026	2029 On FY 2028
Companies concerned	Large companies (already reporting under NFRD)	Other large companies	Listed SMEs	Non-EU parent companies
Criteria	<b>Large EU public interest entities (PIE)</b> , i.e.: PIEs defined as EU companies listed on an EU regulated market, credit institutions, insurance undertakings and entities designated as PIE by Member States Meeting the following size conditions: <ul style="list-style-type: none"><li>• net turnover &gt;€40m or total assets &gt;€20m</li><li>• &gt;500 employees</li></ul>	<b>Other large EU companies</b> meeting at least 2 of the 3 criteria : <ul style="list-style-type: none"><li>• 250 or more employees</li><li>• Balance sheet total &gt; €20 million</li><li>• Net turnover &gt; €40 million</li></ul>	Entities listed on an EU-regulated stock market.	Specific criteria to be met.
Applicable standard	ESRS or equivalent standard if non-EU parent companies		Option to apply simplified standard rather than ESRS	ESRS, equivalent standard, or other to be developed by EFRAG

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## ESRS FIRST SET: DELIVERED BY EFRAG AND SUBMITTED TO THE EC

In November 2022, EFRAG submitted the first set of draft ESRS to the European commission in its role as technical adviser.

This first set takes into consideration the input from the public consultation (May-July 2022) and the final revisions of the CSRD text.

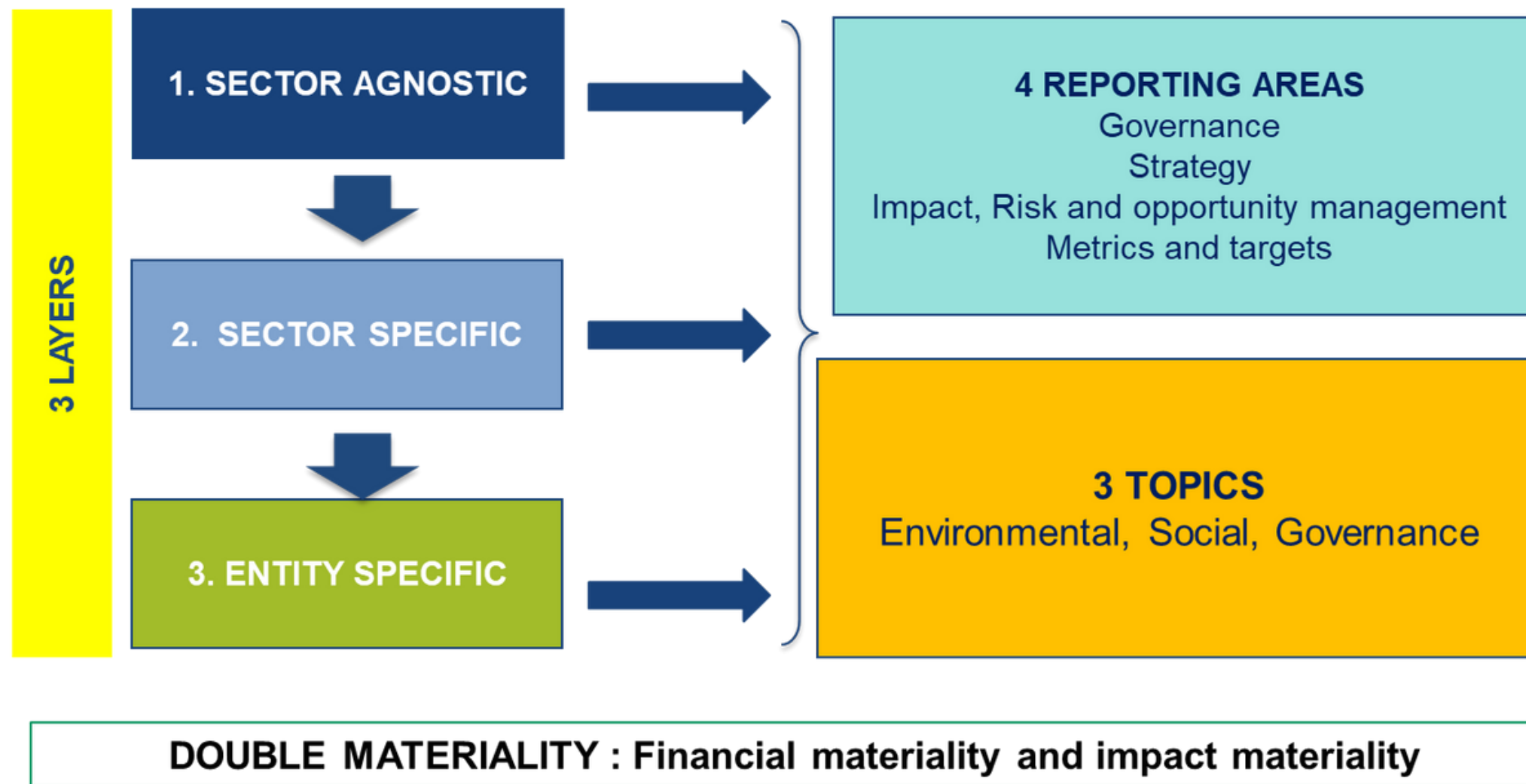
Set 1 includes:

- ✓ Cover letter
- ✓ Due process note
- ✓ Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 29b CSRD
- ✓ EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS and Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu
- ✓ **First set of 12 draft ESRS to be issued as delegated Acts**
  - Appendix I –Disclosure Requirements, Application Guidance index
  - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
  - Appendix III – Datapoints in accordance with EU laws in the ESRS
  - Appendix IV – TCFD Recommendations and ESRS reconciliation table
  - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
  - Appendix VI – Acronyms and glossary of terms

<https://www.efrag.org/lab6>

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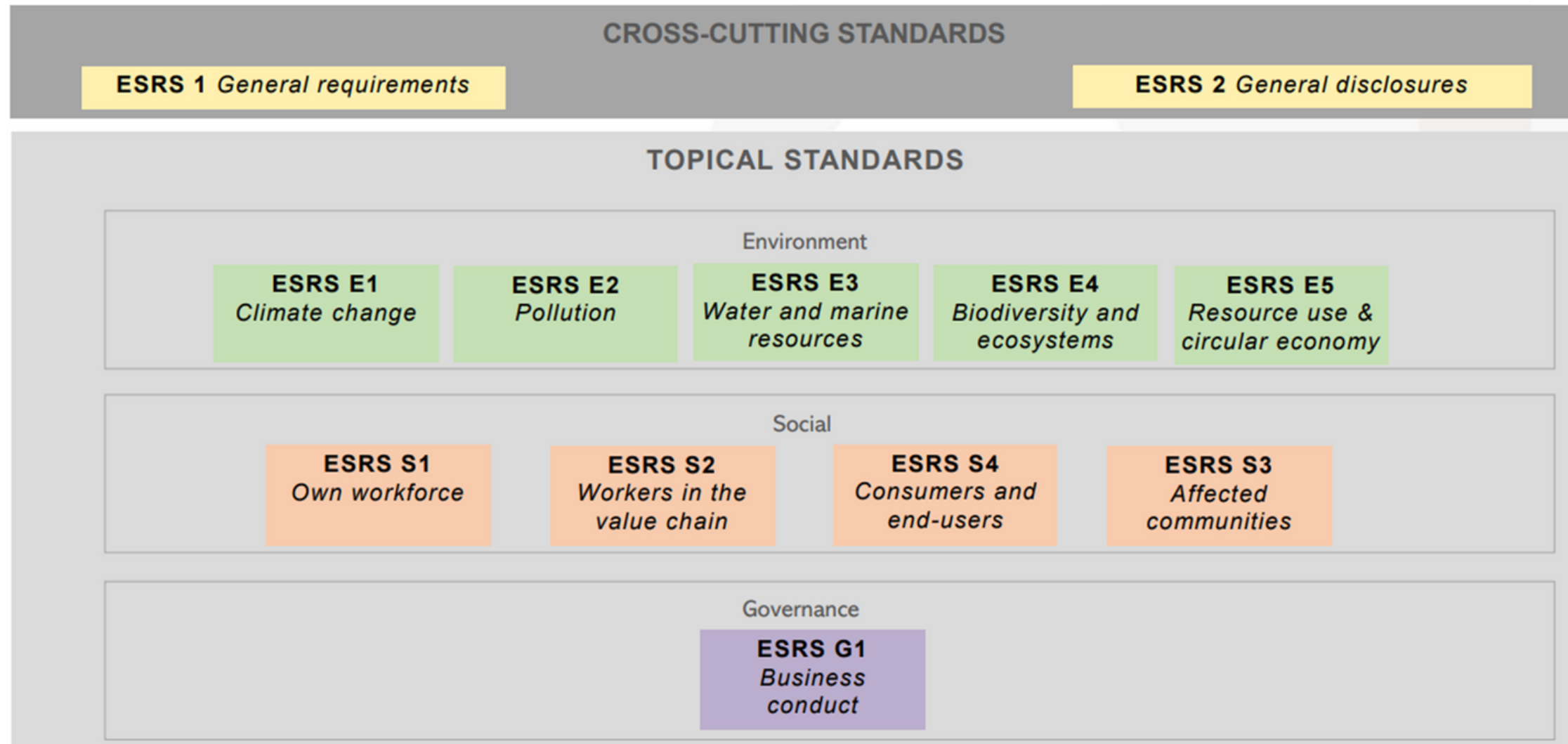
## ESRS: EUROPEAN SUSTAINABILITY REPORTING STANDARDS - GENERAL APPROACH





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## ESRS - OVERVIEW OF THE ESRS SET I



### SET I

- 82 disclosure requirements
- Around 1100 data points, of which:
  - Around 1/3 quantitative
  - Around 1/3 mandatory

SET II: Sectoral standards-tbc,  
SME and digitalization guidance

Source: EFRAG materials

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## ESRS - MATERIALITY APPROACH: DOUBLE MATERIALITY



### MANDATORY INFORMATION TO BE DISCLOSED

The following disclosures/datapoints are to be disclosed and do not follow the materiality assessment:

- A. ESRS 2 – General Disclosures**
- B. EU legislation datapoints** (SFDR, EU Benchmarks, Pillar III, EU Climate law ..). These are in ESRS 2 and topical standards – refer to Appendix D of ESRS 2 for a full list.
- C. E1 – Climate Change**
- D. S1 – Own workforce DRs 1 to 9** for undertakings with 250 employees or more.

### DISCLOSURES SUBJECT TO THE MATERIALITY ASSESSMENT

To identify the material impacts, risks and opportunities for the undertaking within the short-, medium- and long-term.

#### At topical standards

##### **MATERIAL**

To disclose the information (including, policies, actions and targets)

##### **NOT MATERIAL**

Brief explanation

#### At Disclosure Requirement and/or datapoint (Metrics)

##### **MATERIAL**

To disclose the information

##### **NOT MATERIAL**

The undertaking may omit the Disclosure Requirement/datapoint

Content Index / List of all Disclosure Requirements reported

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## ESRS - VALUE CHAIN

**Value chain:** Information about the reporting undertaking provided in the sustainability statements shall be extended to include information on the **material impacts\***, **risks and opportunities** connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain. (ESRS 1 para 67)

*\* Impacts include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships*



### VALUE CHAIN (upstream and downstream) IMPACT/RISK/OPPORTUNITY BASED

If after making reasonable effort undertaking cannot collect information it shall be estimated  
e.g. through data from indirect sources, sector-average data, sample analyses, market and peer group data, other proxies or spend data



More information:

<https://raportroczny.bnpparibas.pl/>

<https://www.bnpparibas.pl/csr>

<https://www.bnpparibas.pl/strefa-zielonych-produktow/produkty>

Thank you!

**Maria Krawczyńska**

CSR & Sustainable Finance Department Director

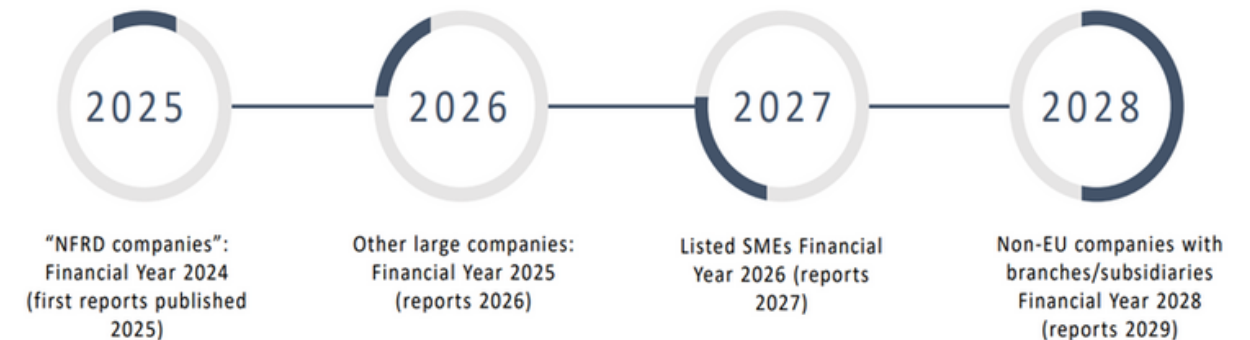
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To which companies will it be applicable?	All large companies: » 250 employees and/or » €40M Turnover and/or » €20M Total assets
How many companies are subject to the new directive?	49.000 Covering » 75% of total EU companies' turnover
What is the scope of reporting requirements?	Defined by the European Sustainability reporting Standards that will be developed in 2 sets  Adding additional requirements in the ESRS (based on phase 1) on: -Double materiality concept: Sustainability risk (incl. climate change) affecting the company + Companies' impact on society and environment -Process to select material topics for stakeholders -More forward looking information, including targets and progress thereon -Disclose information relating to intangibles (social, human and intellectual capital) -Reporting in line with Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation
Is independent 3 <sup>rd</sup> party assurance mandatory?	Mandatory- limited level of assurance, including: -integration in Auditor's Report -Audit by independent third party (statutory auditors or others) -Scope to include EU Taxonomy and process to identify key relevant information
Where should companies report?	Inclusion in the Management Report
In what format should companies report?	To be submitted in electronic format (in XHTML format in accordance with ESEF regulation)



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SET 1: -standards to specify information to report (all sustainability topics) of CSRD  
-sector agnostic standards –at least covering needs of financial market participants under SFDR



SET 2: –sector-specific standards  
–standards for listed SMEs  
–complementary information where necessary  
–standards for non-EU companies

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## ESRS & Internal Audit 1/2

### INTERNAL AUDIT CAN BE A CHANGE AGENT

**STEP 1: Sustainability maturity assessment** : Health check now so IA can establish our readiness

- where could the greatest risks arise?
- where are the greatest areas for action?
- where the company stands (ref to matrix of ecoDa-Ferma- ECIIA paper)?

**STEP 2: Sustainability regulatory context** : IA to monitor how the process is evolving

- follow up on regulatory developments and requirements and anticipate what is coming

**STEP 3: The change path** : Monitor the regulatory and legal update

- what is important for the organisation?
- what needs to be done with regard to the functionality of governance, control and risk management mechanisms?

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## ESRS & Internal Audit 2/2

### INTERNAL AUDIT CAN GIVE ASSURANCE

- IA needs to examine the design and functionality of both the company's sustainability risk management and internal control systems. Corporate Governance System
- IA can validate ESG goals (benchmarking), the strategy and the translation into KPIS, scenarios (forward looking).
- IA gives insight on ESG implementation and embedding in the daily operations for the whole value chain
- IA can validate the reliance, accuracy, completeness, comparability, timeliness of ESG disclosures, taking into consideration the double materiality and value chain concepts
- IA can assess the change in culture, behaviours, governance, strategy, performance to imbed sustainability goals



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## **#AUDITTALKS community**



# Thank you

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